

DCI'S WELCOMING REMARKS AT
THE CONFERENCE ON STRUCTURAL CHANGE

3 June 1985

Good morning, ladies and gentlemen, and welcome to this conference on the Economic and Security Implications of Structural Change. We thank all of you for spending the time these two days to share your ideas and thoughts with us.

Structural change can mean many things and I'm reminded of that as I note old friends on the program with whom I've had the privilege of working on different kinds of structural change.

There's Leo Cherne with whom I worked 45 years ago in analyzing a proficient structural change called industrial mobilization. In a few short years it brought the American economy out of the Great Depression and converted it into a prolific producer of weapons of war.

Then there's Charlie Kindelberger who, when we worked together with the OSS in London forty years ago, was producing another kind of structural change. He was dissecting the German war economy to select the bridges and the synthetic oil plants for the Allied Air Forces to knock down to immobilize German tanks and planes. Then a few years later, when we worked together on the Marshall Plan, he had switched gears to play a major role in reconstructing Europe.

Then there's a youngster named Pete Peterson who, when we were in the Nixon Administration 15 years ago, did the first in-depth analysis in the American Government to assess the implications of the Japanese trade and

technology surge which had by then developed in part from economic and tax policies to which our keynote, Leo Cherne, had contributed as an economic advisor to Douglas MacArthur.

These activities and others in which many of you have been involved as actors or students have produced profound changes in the past few decades--changes on a scale that used to take centuries to unfold. Many of these changes are sparked by advances in technology, and the pace of that advancement keeps accelerating.

Some examples of this process come to mind:

- Following the vigorous growth and "economic miracles" of the Marshall Plan years, our West European allies have recently been experiencing painful combinations of sluggish growth, chronically high unemployment, and political conflict in depressed regions.
- Several factors underlie these adjustment problems:
 - lack of labor mobility
 - disincentives for business to fire outmoded labor
 - the burdens of social spending and unemployment
 - the need for capital formation
- On the other hand, despite wartime devastation and population pressures, Japan and the newly-industrialized countries of East Asia have accomplished one of history's most dramatic transformations in springing out of developing-country status.

- In Japan, a different form of structural adjustment is needed--
but it is a structural problem all the same:
- excessive domestic savings relative to investment continue
to force Japanese industry into export markets;
- Japanese domestic growth not related to foreign sales is
lagging;
- along with the strength of the dollar, this is the broader
context of our problems with Japan.

I, for one, am not satisfied that we in government have focused on the problem of structural change and approached it as systematically as we should, in a way that leads to realistic policy options. I think it is and will continue to be one of our priority issues.

There are obvious constraints on what the Intelligence Community can realistically do in this area. Our priorities are often pulled by current policy needs, but we have got to do a better job of analyzing long-term issues--of not missing the forest for the trees in producing current intelligence.

For this reason, I strongly feel we need to take careful measure of the structural changes taking place in the world today, as well as the need for a feasibility of alternative forms of policy response and adjustment. Let there be no doubt about it: these changes and/or the absence of an appropriate policy response can and do affect the national security interests of the United States. They affect our capabilities at home. They affect our ability to deal with countries overseas. And they will affect how this country fares over the next quarter-century.

An undertaking on this scale needs to have some order imposed on it. We need to know what the important questions are. We need to have enough of a grasp of the implications that we can set our priorities for analyzing them. We need to understand how the various parts of the problem interact. That is what I personally hope this conference will achieve.

And so, in welcoming you this morning, let me also challenge you. The issues and problems before you are not simple, and no simple answers should be forthcoming. But over the course of the next two days, I look to this distinguished group to shed some light on the many dimensions of structural change--on what they mean, what we need to analyze and understand about them.

I think you will find the program an interesting one. I look for a thorough exchanging of ideas, not a consensus. I want you all to speak candidly.

Thank you for your interest, and welcome.